Homework 2 due Friday rest of Chapter 3

1. Suppose the U.S. Congress is considering passing an excise tax that would increase the price of a pack of cigarettes by $1.00. What would be the likely effect of this change on the demand and supply of cigarettes? What is likely to happen to cigarette prices and the quantity consumed if the tax bill is enacted?

2. Assuming no government intervention, describe the market behavior that should result if the price of a product is below its equilibrium price; then describe the behavior that should occur if the price is above its equilibrium price.

3. Can ticket “scalping” be justified? Explain using economic analysis.

4. Why is there a shortage of donated human organs that can be used for transplants? How would it effect the organ donation market if they paid people for organs? How would it effect the organ donation market if instead of requiring people to sign their driver’s license if they want to donate, they are presumed to donate and only sign their license if they don’t want to donate.